

## Message Text

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PAGE 01 HELSIN 01616 161236Z

47

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-11 NSAE-00 RSC-01 FAA-00 PM-07 H-03 L-03

NSC-07 PA-04 PRS-01 SP-03 SS-20 USIA-15 OMB-01 CIEP-03

TRSE-00 DRC-01 /126 W

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R 160935Z AUG 74

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 7765

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: EAIR, US, FI

SUBJECT: CIVAIR-FINNAIR OPPOSITION TO CHARTER FLOOR

REF: STATE 6779 (NOTAL); HELSINKI 1545

PASS CAB AND USIA FOR FINNISH DESK OFFICER

1. SUMMARY. FINNAIR HAS DECIDED TO ACCEPT FARE STRUCTURE TENTATIVELY AGREED ON AT MONTREUX MEETING OF AIRLINES OPERATING OVER NORTH ATLANTIC, PROVIDED AGREEMENT IS REACHED AMONG ALL AIRLINES AT SAN DIEGO MEETING BEGINNING SEPT. 10 ON COMPROMISE UNDER WHICH FINNISH WESTBOUND AFFINITY CHARTER FARES WOULD RISE BY 55 PER CENT RATHER THAN ABOUT 77 PER CENT. TO COMPLEMENT THIS FINNAIR WILL SEEK PROMULGATION BY GOF AND ACCEPTANCE BY USG OF LOWER AFFINITY GROUP CHARTER RATES ON SCHEDULED FLIGHTS HELSINKI TO NEW YORK AND RETURN. END SUMMARY.

2. REFTEL GIVING GUIDANCE ON U.S. POLICY ON INTERNATIONAL  
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PAGE 02 HELSIN 01616 161236Z

AIR RATES AND FARES ON THE NORTH ATLANTIC WAS RECEIVED IN

GOOD TIME BEFORE MY MEETING AUGUST 15 WITH MR. GUNNAR KORHONEN, MANAGING DIRECTOR OF FINNAIR, AND RISTO OJANEN, VICE PRESIDENT FOR SALES. MY ECONOMIC COUNSELOR AND POLITICAL OFFICER ALSO PARTICIPATED. I AM GRATEFUL FOR PROMPT RESPONSE TO MY REQUEST.

3. KORHONEN INDICATED THAT HARD BARGAINING BY FINNAIR AT MONTREUX HAD RESULTED IN AGREEMENT IN PRINCIPLE ON SPECIAL ARRANGEMENT FOR FINNAIR IN RESPECT TO CHARTER RATES FROM FINLAND TO U.S. AND RETURN. ALTHOUGH DETAILS WOULD HAVE TO BE WORKED OUT AT READJOURNED MEETING ON SEPTEMBER 10 AT SAN DIEGO, ARRANGEMENT WOULD INVOLVE AN INCREASE IN THE CHARTER SEAT PRICE FROM HELSINKI TO NEW YORK DURING THE PEAK SEASON OF ABOUT 55 PER CENT. AT OTHER SEASONS, THE INCREASE OVER TODAY'S PRICES WOULD BE EVEN MORE. ALTHOUGH "IN A SPIRIT OF COMPROMISE" FINNAIR HAD INDICATED AT MONTREUX IT WOULD ACCEPT PROPOSED MINIMUM RATES AND ATTACHED CONDITIONS PROVIDED ALL OTHER AIRLINES HAVING LICENSES TO OPERATE CHARTERS ON THE NORTH ATLANTIC COULD ALSO ACCEPT THEM, IT DID NOT THINK THE NEW RATES UNDER THE POSSIBLE NEW AGREEMENT WERE LOW ENOUGH TO MEET FINLAND'S PROBLEM. PROPOSED INCREASE OF MORE THAN 50 PER CENT WOULD CAUSE A SHARP DECREASE IN NUMBER OF FINNISH TOURISTS VISITING U.S., AND IT WOULD THEREFORE BE DIFFICULT TO COLLECT GROUPS LARGE ENOUGH TO FILL A WHOLE CHARTER AIRCRAFT. THEREFORE, IN ORDER TO MINIMIZE LOSS AND TO PRESERVE AT LEAST PART OF TOURIST TRAVEL FROM FINLAND TO UNITED STATES, FINNAIR BELIEVES IT IS MORE IMPORTANT THAN EVER TO BE ABLE TO OFFER LOW FARES TO SMALLER AFFINITY GROUPS ON SCHEDULED SERVICES FROM HELSINKI TO NEW YORK, NOT AS A SUBSTITUTE FOR LOWER CHARTER FARES BUT AS COMPLEMENT TO THEM.

4. BASING MY REMARKS ON PARAGRAPH 3 OF REFTTEL, I TOLD KORHONEN THAT THE UNITED STATES GOVERNMENT HAD NO OBJECTION IN PRINCIPLE TO SPECIAL ARRANGEMENTS FOR LOWER CHARTER FARES FROM FINLAND PROVIDED THE EXCEPTION DOES NOT EFFECTIVELY IMPAIR THE RATE STRUCTURE TO OTHER POINTS. I POINTED OUT, HOWEVER, THAT THE U.S. WOULD HAVE SERIOUS PROBLEMS WITH FINNISH PROPOSAL TO LOWER EXISTING GROUP LIMITED OFFICIAL USE

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PAGE 03 HELSIN 01616 161236Z

AFFINITY SCHEDULED FARES FROM FINLAND TO THE U.S. AND RETURN.

5. I INDICATED THAT U.S. FAVORS TRAVEL BY AS MANY FINNS AS POSSIBLE TO THE UNITED STATES AS TOURISTS AND THAT WE THEREFORE HEARTILY ENDORSED IN PRINCIPLE THE EFFORTS OF FINNAIR AND U.S. SCHEDULED AND UNSCHEDULED AIRLINES TO MAINTAIN AND INCREASE LEVEL OF SUCH TRAVEL.

HOWEVER, WE ALSO BELIEVE THAT FARES AND RATES MUST REFLECT THE UNDERLYING COSTS OF SERVICE WHICH HAVE RISEN VERY SUBSTANTIALLY DUE TO GENERAL INFLATION AND FUEL PRICE INCREASE. IN RESPONSE TO QUESTION, KORHONEN ESTIMATED THAT FINNAIR'S COSTS ARE UP ABOUT 30 PER CENT AND THAT THE 55 TO 60 PER CENT INCREASE AGREED TO PROVISIONALLY BY FINNAIR AT MONTREUX WAS MUCH HIGHER THAN NEEDED TO COVER FINNAIR'S COST INCREASES. FINNAIR FEELS THAT A 30 PER CENT INCREASE IN CHARTER FARES CAN BE JUSTIFIED TO THE PUBLIC AS REQUIRED BY INCREASED COSTS AND WOULD PROBABLY BE SALABLE, ALTHOUGH THERE WOULD CERTAINLY BE AN INITIAL DROP IN TRAVEL TO THE UNITED STATES. FINNAIR BELIEVES THAT 55 OR 60 PERCENT HIGHER CHARTER FARES WILL MEET VERY FIRM RESISTANCE. DROP IN TRAVEL TO THE UNITED STATES WOULD BE SO GREAT THAT THE PROFITABILITY OF THE 2 DC-10'S WHICH WILL COME INTO SERVICE NEXT YEAR WOULD BE SERIOUSLY AFFECTED. KORHONEN SAID THAT PURCHASE OF TWO DC-10'S WAS FIRM AND THAT FINNAIR WOULD HAVE TO MAKE THE BEST OF A BAD SITUATION. HOWEVER, A SHARP FALL IN CHARTER TRAFFIC TO U.S. MIGHT WELL LEAD TO DECISION TO USE FINLAND'S DC-8'S ON EUROPEAN ROUTES, REDUCING OR ELIMINATING NEED FOR FINLAND TO PURCHASE THREE TO SIX DC-9-50'S FOR THESE ROUTES AS IS NOW CONTEMPLATED. THIS WAS NOT PRESENTED AS THREAT BY KORHONEN BUT RATHER AS POSSIBLE RESULT OF PURELY ECONOMIC CONSIDERATIONS, BASED ON MARKET STUDIES.

6. I ASKED WHAT MR. KORHONEN VISUALIZED AS NEXT STEPS IF AT SAN DIEGO THE CONCERNED AIRLINES REACHED AGREEMENT ON CHARTER FLOOR FOR FINLAND AROUND 55 PER CENT HIGHER THAN PRESENT LEVELS. HE SAID THAT FINNAIR WOULD THEN PROBABLY REQUEST FINNISH GOVERNMENT (GOF) TO PROMULGATE AND TO FILE WITH CAB LOWER FARES FROM HELSINKI TO NEW LIMITED OFFICIAL USE

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PAGE 04 HELSIN 01616 161236Z

YORK AND RETURN FOR AFFINITY GROUPS TRAVELING ON SCHEDULED FLIGHTS.

7. MY DISCUSSION WITH MR. KORHONEN WAS FRIENDLY AND FRANK. ALTHOUGH I INDICATED SYMPATHY WITH FINLAND'S SPECIAL PROBLEMS AND UNDERSTANDING OF DIFFICULTIES FINNAIR WILL DOUBTLESS HAVE IN MAINTAINING HIGH LEVEL OF TOURIST TRAVEL TO U.S. WITH SUBSTANTIALLY HIGHER CHARTER FARES, I MADE IT CLEAR THAT FINNISH PROPOSAL FOR SUBSTANDARD SCHEDULED GROUP AFFINITY FARES FROM FINLAND WOULD PRESENT USG WITH SERIOUS PROBLEMS. REFTTEL OUTLINES IN A GENERAL WAY OUR HOPE THAT USG COULD EXTEND SYMPATHETIC CONSIDERATION TO FINLAND ON FARE MATTER. AFTER THE SAN DIEGO MEETING AND FINNAIR AND GOF'S NEXT MOVE, WE WILL WISH TO COMMENT IN GREATER DETAIL ON THE POSSIBLY OVERRIDING NATIONAL POLICY AND POLITICAL ASPECTS OF THIS QUESTION.

KREHBIEL

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
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